SKY PLC

Unaudited results for the six months ended 31 December 2016

Strong first half delivery; on track for full year

- Sector leading revenue growth across all markets, faster customer growth than prior year
- 12% increase in revenue to £6.4 billion, up 6% on a constant currency basis

H1 16/17	Reported revenue	Reported growth	Reported growth	At constant currency
UK & Ireland	£4,267m	+£195m	+5%	+5%
Germany & Austria	£907m	+£214m	+31%	+10%
Italy	£1,236m	+£283m	+30%	+9%
Group	**£6,410m**	**+£692m**	**+12%**	**+6%**

- Operating profit of £679 million, after absorbing £314 million step up in Premier League costs
- Earnings per share of 28.3 pence, 5% lower
- Statutory results: 12% increase in revenue; operating profit of £461 million; EPS of 18.8 pence
- Run rate synergy target of £200 million achieved early; further operating efficiency plans underway
- Significant progress made on executing our strategy for growth; launched Sky Mobile in UK, our next generation box - Sky+Pro - in Germany and Austria, and Sky Adsmart in Italy
- Record on demand viewing of two billion streams and downloads as we continue to deliver the best value to customers
- Clear set of plans in place for 2017

Jeremy Darroch, Group Chief Executive, commented:

"We have delivered a strong first half performance across the group, continue to make significant progress against our strategy and remain on track for the full year.

Across the half we have continued to drive customer and product growth in all our markets, adding over 500,000 new customers – faster growth than last year - and selling two million products. That means, in the past three years and since the Skys have come together, we've now added 2.5 million customers and total products are up almost 25%. This has resulted in sector leading revenue growth of 6% which we've achieved despite some pressure on discretionary consumer spending across Europe and a decline in the UK advertising market.

In a year in which we are absorbing significantly higher programming costs, as a result of the step up in Premier League costs, our financial performance has been good. To put this into perspective, our first half operating profit of £679 million is down £65 million on the prior year despite absorbing an additional £314 million of Premier League costs, highlighting the strength of our underlying financial performance. This has been supported by the efficiency of our operating model and the achievement of our £200 million synergy target six months early.

We remain confident in our strategic plans and have made significant progress against them. We've launched Sky Mobile in the UK, delivered further enhancements to the customer experience across the group and extended our reach in Europe's largest TV market with the launch of Sky Sports News free-to-air and Sky 1 in Germany and Austria. Whilst churn in the UK has remained higher than planned, we have a full set of actions to address this, including replicating the success of our Italian loyalty programme which has resulted in reduced churn.

We enter 2017 focussed on giving more quality, choice and value to our customers. In the UK we plan to launch our Sky TV service without the need for a satellite dish for the first time, at the same time as pushing ahead in the £15 billion mobile market. We are continuing to build our European TV production studio with 100 original series going into production this year. And we will broaden our businesses further with the launch of Sky Store in Germany and Austria and the full roll-out of our targeted advertising service, Sky Adsmart, in Italy and Ireland.

Whilst we expect the backdrop in our territories to remain uncertain, we are on track as we enter the second half of the financial year and we remain focused on delivering our clear strategy for growth."

Results highlights

(£m)	6 months to 31 Dec 16	6 months to 31 Dec 15 *Constant currency*	Growth	Foreign exchange impact	6 months to 31 Dec 15 *Actual exchange rates*
Adjusted Results					
Revenue	**6,410**	**6,036**	**+6%**	(318)	**5,718**
UK and Ireland	4,267	4,072	+5%	-	4,072
Germany and Austria	907	827	+10%	(134)	693
Italy [1]	1,236	1,137	+9%	(184)	953
Operating Profit	**679**	**744**	**(9)%**	**3**	**747**
UK and Ireland	620	756	(18)%	-	756
Germany and Austria	(11)	(41)	+73%	7	(34)
Italy	70	29	+141%	(4)	25
Statutory Results		*Actual exchange rates*			
Revenue	6,410	5,718	+12%		
Operating profit	461	524	(12)%		
Earnings per share (basic)					
Adjusted (p)	28.3	29.9	(5)%		
Statutory (p)	18.8	21.0	(10)%		

Unless otherwise stated, results are presented throughout on an adjusted basis. The constant currency exchange rate used for translating the financial results of Italy and Germany and Austria into sterling is €1.16:£1, being the average rate for the current period (2016: €1.39:£1).

Adjusted results exclude items that may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. For a reconciliation of statutory to adjusted results see Appendix 2.

[1] Like-for-like revenue growth in Italy, excluding the sale of the Rio Olympics rights, was 4%.

SUMMARY OF GROUP OPERATIONAL AND FINANCIAL PERFORMANCE

We have continued to make good progress on the strategy we laid out at our recent Investor Day; to grow our revenues and profits while creating sustainable value for shareholders over the medium term by expanding into new markets, opening up new customer segments and developing more products and services.

We have had a highly productive period, making significant progress against these strategic priorities:

Expanding into new markets:

- Delivered our strategy in Germany, Austria and Italy, growing each of these businesses
- Entered our largest adjacent sector through the launch of Sky Mobile in the UK
- Increased the returns on our box investment by making the Sky Q box standard for all UK customers
- Built our transactional business to a 30% share of the UK digital market
- Grew our European advertising business with the launch of Sky Adsmart in Italy

Opening up new customer segments:

- Launched new OTT streaming services for the pay lite sector, including NOW TV Combo in the UK and Sky Ticket in Germany and Austria
- Developed entertainment for the whole household with launch of Sky 1 and Sky Cinema Family channels in Germany and Austria, plus re-launched Sky Cinema in Italy
- Extended our reach in Germany and Austria by taking Sky Sports News HD free-to-air

Developing more products and services:

- Introduced our next generation box – Sky+Pro - the fastest growing product ever launched in Germany and Austria
- Rolled out our enhanced mobile TV service - Sky Go Extra - in Italy
- Improved the viewing experience for customers in Italy with the introduction of a brand new home page and launch of on demand HD content
- Drove on demand viewing to record levels with expansion of services, up 14% year on year
- Launched new Sky Sports app in Italy, developed by our digital team in Leeds, with over 700,000 downloads to date

This approach has enabled us to deliver group revenue growth of 6% to £6,410 million, in line with our stated guidance. In a year in which we are absorbing significantly higher programming costs, we were able to deliver operating profit of £679 million, down £65 million on the prior year despite additional Premier League costs of £314 million.

Under the terms of the new Premier League contract, the second payment (totalling £713 million) was brought forward to December – versus January in the prior year – resulting in a working capital movement which will reverse in the second half.

We have achieved our synergy target of £200 million six months ahead of plan by focussing on multiple cross-market efficiencies. These will continue, along with additional initiatives, as we work towards our £400 million synergy target by the end of 2020.

UK and Ireland

Our focus in the UK and Ireland has been on maximising the returns on the significant product and content investments we made throughout 2015/16, as well as delivering broad based revenue growth from new products and services, such as transactional and advertising, alongside pay TV subscription. We've had a number of highlights throughout the half, including:

- Introduction of Sky Q box as standard, with around 25% of new customers currently choosing to pay for additional Sky Q functionality
- Launched the UK's most comprehensive ultra HD (UHD) service, broadcasting over 60 Premier League games in the period and now have over 300 hours of on demand UHD content available
- Downloads of Sky Kids app up 40% in the half, with over 18 million episodes viewed in Q2 alone
- Sky Sports Mix viewed by over four million households, with over 700 hours of live sport shown since launch
- Sky Sports attracted 29 of the top 30 Premier League audiences so far, with viewing increasing after a slow start to the season
- Strong usage of our new Sky Cinema service, with a record seven million movie downloads in one week over Christmas, up over 50% versus the average week in the period
- 18% increase in revenue from transactional business driven by launch of box sets within Sky Store Buy & Keep
- Record weekly revenue generated by Sky Store over Christmas, totalling £4 million; Sky Store regularly taking more than 50% share of digital sales for new movie release titles
- Advertising revenues down just 2% against a broader market decline of 5%

Our ability to develop more products and services was highlighted by the launch of Sky Mobile in the half. Similar to our entry into the broadband market in 2006, we have been able to leverage the strength of our brand and industry leading customer service to create another revenue and future profit stream. Through a range of distinctive features, we've created a mobile service that offers customers greater choice and flexibility than current mobile providers. We began sales in mid-December to existing Sky customers and those who had pre-registered, ahead of our full market launch in early January. We are just getting going in this brand new market and remain very confident in the opportunity ahead.

Taken together, these priorities have led to a good financial and operational performance with revenue up 5% to £4,267 million, despite the headwinds in the advertising market, and operating profit of £620 million.

We added 205,000 new customers in the half, driven by a strong Christmas trading period, with a further 1.2 million products sold. This included 124,000 new TV products, taking our total TV customer base to over 11.4 million. In addition, we added 140,000 new broadband products meaning that over six million broadband households across the UK and Ireland choose Sky to provide their broadband service.

On a 12-month rolling basis churn was up year on year to 11.6%, reflecting an increased proportion of broadband customers now making up our total customer base – who have a greater propensity to switch providers - and the highly promotional environment we are operating in. While this trend has continued for longer than expected, we are confident in the plans we have been developing to address this. Over the course of this year we will be launching a full loyalty programme that we believe will deliver tangible results and reflect the success of our loyalty programme in Italy. We've already seen an excellent response to our customer Christmas gifting campaign and going forward want to reward loyalty and customer longevity in order to build even stronger customer relationships.

Germany and Austria

Our performance in Germany and Austria has been strong. We have had an extremely busy period as we pursue the significant opportunity that exists in Europe's largest TV market. Our focus on broadening the proposition and developing a range of products and services to suit the whole market has driven excellent customer growth. Other highlights from the period include:

- Introduction of brand new channels, Sky Cinema Family and Sky 1, with Sky 1 reaching over 2.3 million viewers in its first two months – the most successful channel launch in Sky Deutschland's history
- Entirely new series of *MasterChef* quickly becoming the most viewed programme on Sky 1
- Launch of next generation box – Sky+Pro – becoming our fastest ever product launch in this market
- Successfully began broadcasting Bundesliga and UEFA Champions League matches in UHD
- Developed brand new streaming service, Sky Ticket, with passes sold doubling from Q1 to Q2
- Agreed a major cooperation agreement with Telefonica for our Sky Ticket streaming service, which launched in January 2017
- Completed shooting of *Babylon Berlin*, due to air on screen in the autumn
- Continued to build additional revenue streams with advertising revenue up 29% year on year - Sky Media revenues in November reached their highest ever level
- Extended our reach by taking Sky Sports News free-to-air (FTA), with 1.7 million non-Sky subscribers watching the channel in its first month of FTA broadcasting.

The strategy to broaden our offer and invest in future opportunities for customers is working. Over the past six months we delivered revenue growth of 10% to £907 million, while recording an operating loss of £11 million versus a loss of £41 million in the prior year. Across the half, we added 231,000 new customers, up 8% year on year, with total product growth of 486,000. Churn of 10.6% was up year on year due to more customers coming to an end of their 24-month contracts versus a year ago.

Italy

Customers in Italy continue to be attracted by our unrivalled breadth of sports, movies and entertainment programming. In a challenging consumer environment, we have grown our customer base in Italy for five quarters in a row now and operating profits have reached their highest H1 level for five years. Across the half, we kept up our focus on improving the TV experience for customers, leveraging our multi-platform strategy and broadening our revenue growth. Highlights from the period include:

- Relaunched our Sky Cinema service in November - making a movie premiere available every day – driving viewing up 5% year on year
- Critically acclaimed Sky Original drama, *The Young Pope*, became our most successful first series ever in Italy with average audiences of 1.4 million
- Tenth series of *X Factor* generating highest ever viewers, with average audiences exceeding two million to each episode
- Record audiences to motorsports with Formula 1 viewing up 7% year on year – including seven races recording audiences of over one million - plus MotoGP viewing up 2% year on year, with ten races recording audiences of over one million
- Launched a Sky homepage, based on the viewing experience in the UK and making it easy for customers to find the shows they love
- Enhanced the Sky On Demand service by adding HD content

- Introduced Sky Go Extra, replicating the enhanced mobile TV service in our other markets, attracting over 250,000 customers by the end of December
- Launched a brand new Sky Sports app, developed by our digital team in Leeds, with over 700,000 downloads to date
- Drove broad revenue growth with advertising revenues up 14% year on year, including our best ever Q2 performance
- Launched our initial targeted advertising campaigns before Christmas, with full roll-out of Sky Adsmart from January

The breadth and quality of our customer offer has driven an excellent financial and operational performance. Revenue was up 9% to £1,236 million, with like-for-like growth of 4% excluding the sale of the Rio Olympic rights in the first quarter. Operating profits were up £41 million year on year to £70 million. This excellent financial performance was driven by total customer growth of 67,000. In addition, we added 341,000 new products, another strong performance, while churn has improved to 9.5% with customer satisfaction reaching its highest ever level in December.

Plans for 2017

In the year ahead we will remain focussed on executing our strategy in each market, exploiting our many opportunities for growth and deepening our relationships with customers.

It's going to be our biggest ever year on screen. Through our group wide deals with Showtime and HBO, customers will enjoy exclusive access to the highly anticipated returns of *Billions*, *Twin Peaks*, *Ray Donovan* and *Game of Thrones*. In March we can also look forward to HBO's brand new drama, *Big Little Lies*, starring the award-winning actresses Reese Witherspoon and Nicole Kidman. To complement our acquired content, we have a record number of Sky original programmes, with 11 dramas and five comedies airing throughout 2017. Tonight sees the return of our critically acclaimed drama, *Fortitude*, starring Hollywood actor, Dennis Quaid, while later in the year our third series of the Italian drama, *Gommorah,* returns alongside our brand new German crime drama, *Babylon Berlin*. At the same time, throughout 2017 we will have 100 series in production, totalling over 1,000 hours. Within this, we will be working on 15 new dramas including our most ambitious production to date*, Britannia*; our political drama, *Guerrilla*, starring Idris Elba; and the return of our most successful Sky drama on Sky 1, *Lucky Man*.

Today we are announcing a new deal for exclusive live rights to England matches in the brand new UEFA Nations League as part of a new contract including qualifiers for Euro 2020 and FIFA World Cup 2022. Under the new deal, Sky Sports customers in the UK and Ireland will enjoy up to 900 live international games, live coverage of all the home nations and UEFA League of Nations for the first time, enhancing our position as the home of the best sport.

The viewing experience will get even better for customers throughout 2017 across our range of market-leading platforms. We will launch voice search on Sky Q as well as broadcasting every Formula 1 race of the new season in UHD in the UK and Ireland. Our plans to roll out Sky Q to our other markets are also on track. Customers with our Sky+ box in the UK and Ireland will receive a number of new features, including personalised movie recommendations, a new search function making it even easier to find their favourite shows and entirely new ways to 'Buy & Keep' within Sky Store. In addition, in Italy we will launch our Sky Kids app and in Germany and Austria we plan to extend our streaming service, Sky Ticket, to more devices and platforms.

We also have exciting plans in place to launch our Sky TV service in the UK without the need for a satellite dish for the first time, opening up the full Sky TV service to millions of customers who either currently don't want or can't have a dish installed. Launching in our next financial year and initially in the UK, this new broadband-based service will open up new headroom for growth. Over time, we will launch this service in our other markets, building on our position as Europe's leading OTT provider.

Our existing customers are at the heart of everything we do and this year we will recognise and reward their loyalty for choosing and remaining with Sky. This approach has already proved successful in Italy where churn has reduced and we will be using the learnings from this market to introduce new initiatives across the group, including launching the UK's first tenure based loyalty programme in the spring. In addition, we will use our deep customer insights to ensure customers are on the right package to suit them and we will, in some cases, be upgrading customers to our latest equipment in order to give them the best Sky experience. There will be a range of rewards for all our customers from the very first day they join Sky and taken together we believe these plans will deliver tangible results.

Finally, we will broaden our business further by launching our movie transactional service, Sky Store, in Germany and fully roll-out our targeted advertising service, Sky Adsmart, in Italy and Ireland.

GROUP FINANCIAL PERFORMANCE

Unless otherwise stated, all numbers are presented on an adjusted basis for the half year ended 31 December 2016. For comparative amounts in the prior year, numbers are translated at a constant currency rate of €1.16:£1 being the average exchange prevailing in the six months to 31 December 2016. For a reconciliation to amounts at actual exchange rates see page 3.

Revenue

Group revenues grew by £374 million to £6,410 million (2016: £6,036 million) with growth in each territory. UK and Ireland revenue was up 5%, or £195 million, to £4,267 million (2016: £4,072 million), revenue in Germany grew 10%, or £80 million, to £907 million (2016: £827 million), whilst Italy increased by 9%, or £99 million, to £1,236 million (2016: £1,137 million). Our revenue growth was broadly based with every category growing. Our largest category of subscription revenue was up 4%, adding over £200 million. Alongside this, we saw double digit rates of revenue growth in both transactional (up 11%) and programme and channels sales (up 29%). Advertising revenue was up 4%, despite the softer UK TV advertising market which we believe was down 5% in the period.

Costs

Total costs grew by 8%, significantly impacted by the one-time step up in the new three year Premier League contract. Excluding this, total costs increased by only 2%, well below the rate of revenue growth. Operating costs decreased by 1%, an absolute reduction of £24 million, reflecting the continued excellent progress we're making on efficiency. We recognised a benefit from capitalising Sky Q boxes which was substantially offset by higher costs associated with Sky Q installations as well as the marketing of the new product, rolling out the Sky+ Pro box in Germany and our investment in launching Sky Mobile.

We continue to invest on screen for customers, investing a total of £437 million more, including the £314 million increase in the new Premier League deal. Outside of domestic football rights, our fastest area of growth was in transactional movies due to the strong growth for Sky Store and Buy & Keep. We continued to invest in original productions with a strong schedule of Sky Originals including the critically acclaimed *The Young Pope*, *The Last Dragonslayer* and the UK drama *Delicious*. In the period, we broadcast the Ryder Cup exclusively in each market whilst absorbing the annual step up in the Bundesliga costs in Germany. We sublicensed the Rio 2016 Olympics to Rai which led to the recognition of a €60 million programming cost. In the second quarter, we also benefitted from an improved entertainment schedule with the new HBO series *Westworld* and *The Night Of* as well as season 3 of the Showtime drama, *The Affair*.

Direct network costs increased by 6%, below the rate of home communications revenue growth, as we saw continued strong growth in customers, up 210,000 over the last 12 months, and increased fibre penetration.

Sales, general and administrative costs decreased by 1% whilst reducing by 250 basis points as a percentage of revenue. Within this, marketing costs increased as we traded well, adding 7% more customers than last year, whilst in Germany we made brand investments for the launch of the Sky 1 channel and move of Sky Sports News to become a free-to-air channel. The benefit from the capitalisation of Sky Q boxes was offset by higher install costs as well as the costs of Sky Mobile for the first time.

We have achieved our original run rate synergy target of £200 million six months early. During the period, we completed the consolidation of our German playout and uplink broadcast operations to our Milan hub, finished the build of satellite trucks in the UK for use in Germany and centralised our office technology support to our in-house team in Scotland.

Profit and earnings

Operating profit was down 9% to £679 million (2016: £744 million) as a result of the increase in Premier League costs (up £314 million year on year) substantially offset by our strong revenue growth and excellent progress in operating efficiency.

Adjusting for depreciation and amortisation of £330 million, EBITDA was £1,009 million (2016: £1,067 million).

Tax was £43 million lower at £95 million (2016: £138 million) at an effective tax rate of 16.5% (2016: 21.3%). We benefitted from the reduction in the corporation tax rate in the UK and from the UK patent box regime with a lower tax rate on the profits from our patented technology, including set-top boxes.

Profit after tax was £483 million (2016: £511 million), resulting in earnings per share of 28.3 pence (2016: 29.9 pence), down only 5%. The weighted average number of shares, excluding those held by the Employee Share Ownership Plan ('ESOP') for the settlement of employee share awards, was 1,709 million (2016: 1,706 million).

Adjusting items

Statutory operating profit for the period of £461 million (2016: £524 million) is after the deduction of operating expenses of £218 million (2016: £223 million) principally comprising the costs of integrating Sky Italia and Sky Deutschland in the enlarged group, the costs of a corporate efficiency and restructuring programme, the ongoing amortisation of acquired intangibles of £130 million (2016: £170 million) as well as costs associated with the 21st Century Fox cash offer.

Group cash flow and financial position

Net debt at 31 December increased to £7.3 billion (30 June 2016: £6.2 billion). As announced in 2015, under the terms of the new Premier League deal, the second annual payment falls due 30 days earlier at the start of December (prior deal: January) which impacted net debt by £692 million. This impact reverses out by full year as no payment falls due in the second half. Additionally, there was a non-cash movement of £258 million predominantly driven by the decrease in the sterling rate on our Euro denominated debt which was almost wholly offset by a £250 million cash upside from the reset of our USD forward derivative portfolio.

On the basis of average exchange rates (as used in the group's banking covenant) our net debt to EBITDA ratio increased to 3.1 times (December 2015: 2.5 times). On the basis of the spot exchange rates at the end of the period, our net debt to EBITDA ratio was 3.4 times (December 2015: 2.7 times).

The group continues to maintain a strong financial position and has ample headroom to its financial covenants, including excellent liquidity with cash of £1.3 billion as at 31 December 2016, and access to a £1 billion Revolving Credit Facility which remained wholly undrawn throughout the period, and which is committed until November 2021. The group has a well spread portfolio of debt maturities, with an average maturity of six years, and no debt maturing prior to a £400 million bond maturing in October 2017 which we expect to redeem using existing cash.

Returns to shareholders

As part of the terms of the proposed takeover by 21st Century Fox of Sky ("the Acquisition"), Sky will not pay any dividends in 2017.

Under the terms of the Acquisition, if the effective date has not occurred on or before 31 December 2017, shareholders shall be entitled to receive a special dividend of 10 pence per Sky share, payable in 2018. In addition, shareholders shall be entitled to receive any dividend declared and paid by Sky in the ordinary course in 2018 and prior to the effective date. The price of £10.75 per Sky share shall be reduced to the extent that:

- the dividend in respect of the six months ending 31 December 2017 exceeds 13.06 pence per Sky share; and
- the dividend in respect of the year ending 30 June 2018 exceeds 21.8 pence per Sky share.

For full disclosure on the impact to dividends from the offer, please refer to the Recommended Cash Offer document released by 21st Century Fox on 15 December 2016 (found at www.sky.com/corporate/investors).

BIGGER PICTURE

Earlier this month we revealed details of our new environmental campaign, Sky Ocean Rescue, which aims to elevate the poor health of the planet's oceans to millions of people across Europe. The campaign is set to educate and inspire people to change their behaviour in order to protect our oceans and dramatically reduce the amount of plastic waste produced every day that end up in them. More information and details on how to join the campaign are available at www.skyoceanrescue.com.

CORPORATE

On 15 December 2016, the Board of 21st Century Fox and an Independent Committee of the Board of Sky announced that they had reached agreement on the terms of a recommended pre-conditional cash offer by 21st Century Fox for the fully diluted share capital of Sky which 21st Century Fox and its affiliates do not already own. The offer, which is intended to be effected by a scheme of arrangement, is subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances. For further details of the offer and its terms, please refer to our website (www.sky.com/corporate).

Group KPI Summary (unaudited)

All figures (000) unless stated	H1 13	H1 14	H1 15	H1 16	H1 17	Growth
UK and Ireland	+4.4%	+7.1%	+5.6%	+6.3%	+4.8%	+4.8%
Germany and Austria	+15.2%	+17.1%	+9.3%	+10.3%	+9.6%	+9.6%
Italy	+4.0%	(3.7%)	-	(2.6%)	+8.7%	+8.7%
Revenue growth	**+5.4%**	**+5.7%**	**+4.9%**	**+5.0%**	**+6.2%**	**+6.2%**
UK and Ireland	29,513	33,307	36,555	39,573	41,528	+1,155
Germany and Austria	5,223	5,895	6,794	7,714	8,528	+486
Italy	7,259	8,179	8,603	8,579	8,981	+341
Total products	**41,995**	**47,381**	**51,952**	**55,866**	**59,037**	**+1,982**
UK and Ireland	10,742	11,330	11,750	12,283	12,651	+205
Germany and Austria	3,363	3,667	4,123	4,494	4,857	+231
Italy	4,833	4,760	4,734	4,700	4,809	+67
Retail customers	**18,938**	**19,757**	**20,607**	**21,477**	**22,317**	**+503**
UK and Ireland	3,751	3,624	4,080	4,063	3,759	(164)
Germany and Austria	125	268	155	145	135	(9)
Italy	-	-	-	-	-	-
Wholesale customers	**3,876**	**3,892**	**4,235**	**4,208**	**3,894**	**(173)**
Total customers	**22,814**	**23,649**	**24,842**	**25,685**	**26,211**	**+330**
ARPU						
UK and Ireland (£)	£45	£46	£47	£47	£47	
Germany and Austria (€)	€34	€36	€35	€35	€35	
Italy (€)	€43	€43	€43	€42	€42	
Churn						
UK and Ireland	10.4%	10.9%	10.5%	10.2%	11.6%	
Germany and Austria	12.1%	11.4%	8.3%	9.8%	10.6%	
Italy	14.9%	13.1%	10.0%	9.9%	9.5%	

- Wholesale customers taking at least one paid-for Sky channel. The customer numbers are as reported to us at the end of December 2016.
- In the UK and Ireland, paid-for products includes TV, Sky+ HD, Multiscreen, Sky Go Extra, Broadband, Line Rental, Telephony, Ultra HD and Sky Kids app.
- In Italy, paid-for products includes TV, Multivision and paying HD.
- In Germany and Austria, paid-for products includes TV, Second Smartcard, Premium HD and Mobile TV.
- ARPU is quarterly annualised, residential and presented as a monthly amount.
- Churn is 12 month rolling and includes residential customers only, unless otherwise stated.

Content highlights coming up on Sky over the next six months

sky 1 | sky UNO

The Big Spell*	MasterChef*	Italia's Got Talent (series 3)*
Jamestown	Xavier's Wunschkonzert Live *	4 Ristoranti (series 4)*
DC's Legends of Tomorrow	Yonderland	Hooten and The Lady*
Freddie Down Under*	Madam Secretary (series 2)	Dogs Might Fly*
Carters Get Rich*	Eine Liga für sich – Buschis	EPCC – E Poi C'è Cattelan
Stan Lee's Lucky Man(series 2)*	Sechserkette*	(Series 4)*

sky ATLANTIC

Guerrilla*	House of Cards (series 5)	In Treatment (series 3)*
Riviera*	Gomorrah (series 3)	Fargo (series 3)
Girls (series 6)	1993 (series 2)*	Rectify (series 3 and 4)
Billions (series 2)	Veep (series 6)	House of Lies (series 2 – 5)
Fortitude (series 2)*	The Deuce (series 4)	Transparent (series 3)
Crashing	Twin Peaks (series 3)	Big Little Lies

sky SPORTS

Cricket: England Test	Football: Bundesliga	Football: Serie A and Serie B
Football: EPL and EFL	Football: UEFA Champions League	Moto GP: every race live
Golf: European Tour	Golf: The Masters	Basketball: NBA
Netball: Superleague	Tennis: ATP World Tour	Formula 1: every race live
Darts: Premier League	Handball: EHF Champions League	Football: FIFA World Cup 2018 qualifiers
Tennis: ATP World Tour Finals		

sky CINEMA

Finding Dory	Me Before You	Piuma*
X-Men: Apocalypse	Fack ju Göhte 2	Spotlight
Angry Birds: The Movie	Ghostbusters	Deadpool
Absolutely Fabulous the Movie	The Conjuring 2: The Enfield Poltergeist	Teenage Mutant Ninja Turtles: Out of The Shadows
Warcraft	The Magnificent Seven	Money Monster

sky ARTS | sky LIVING

Portrait Artist of the Year 2017*	Rinascrere dale distruzioni – Ebla, Nimrud, Palmira *	Scandal (series 6)
Master of Photography (series 2)*	Fossati Fossati – Contemporaneo	Bones (series 12)
The Legacy (series 3)	Kunst Stoff*	Madam Secretary (Series 3)
De Sign (series 5)*	Mix up Art*	Shades of Blue (Series 2)The Catch (Series 2)

* Sky original programme

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There will be a presentation for analysts and investors at 9:00 a.m. (GMT) at 200 Aldersgate Conference Centre, St Paul's EC1A 4HD. Participants should register by contacting Charlotte Fox on +44 20 7251 3801 or at Charlotte.Fox@finsbury.com. There will be a separate conference call for US analysts and investors at 10.00 a.m. (EST). To register for this please contact Dana Diver at Taylor Rafferty on +1 212 889 4350. Alternatively you may register online at http://www.invite-taylor-rafferty.com/_sky/2017Q2/Default.htm A live webcast of both conference calls will be available via the Sky website at https://corporate.sky.com/investors/latest-results. Replays will subsequently be available.

Related Party Transactions

Details of transactions with related parties during the six month period to 31 December 2016 are provided in Appendix 1.

Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in Appendix 3.

Responsibility statement

The Directors confirm that to the best of their knowledge:

· The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the EU.
·The interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules.

The names and functions of the Directors of Sky plc can be found on our corporate website at sky.com/corporate.

By order of the Board
Jeremy Darroch
Group Chief Executive Officer

Use of measures not defined under IFRS

This press release contains certain information on the Group's financial position, results and cash flows that have been derived from measures calculated in accordance with IFRS. This information should not be read in isolation from the related IFRS measures.

Forward looking statements

This document contains certain forward looking statements with respect to the Group's financial condition, results of operations and business, and our strategy, plans and objectives for the Group. These statements include, without limitation, those that express forecasts, expectations and projections, such as forecasts, expectations and projections in relation to new products and services, the potential for growth of free-to-air and pay television, fixed line telephony, broadband and bandwidth requirements, advertising growth, DTH and OTT customer growth, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky+ HD, Sky Q, Sky Store, Sky Online, mobile, Multiscreen and other services, penetration, revenue, administration costs and other costs, advertising growth, churn, profit, cash flow, products and our broadband network footprint, content, wholesale, marketing, synergies and integration, and capital expenditure.

Although the Company believes that the expectations reflected in such forward looking statements are reasonable, these statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward looking statements. These factors include, but are not limited to, those risks that are highlighted in the document in Appendix 3 – "Principal risks and uncertainties".

All forward looking statements in this document are based on information known to the Group on the date hereof. The Group undertakes no obligation publicly to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

Appendix 1 - Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement for the half year ended 31 December 2016

	Notes	**2016/17 Half year £m**	2015/16 Half year £m
Revenue	2	**6,410**	5,718
Operating expense	2	**(5,949)**	(5,194)
EBITDA		**934**	1,010
Depreciation and amortisation		**(473)**	(486)
Operating profit		**461**	524
Share of results of joint ventures and associates		**8**	3
Investment income		**8**	5
Finance costs		**(100)**	(118)
Profit before tax		**377**	414
Taxation		**(56)**	(54)
Profit for the period		**321**	360
Profit for the period attributable to:			
Equity shareholders of the parent company		**321**	359
Non-controlling interests		**-**	1
		321	360

Adjusted earnings per share from adjusted profit for the period (in pence)			
Basic	3	**28.3p**	29.9p
Diluted	3	**28.1p**	29.7p

Earnings per share from profit for the period (in pence)			
Basic	3	**18.8p**	21.0p
Diluted	3	**18.7p**	20.9p

Condensed Consolidated Statement of Comprehensive Income for the half year ended 31 December 2016

	2016/17 Half year £m	2015/16 Half year £m
Profit for the period	**321**	360
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain on revaluation of available-for-sale investments	**-**	1
Gain on cash flow hedges	**298**	232
Tax on cash flow hedges	**(63)**	(46)
Loss on net investment hedges	**(177)**	(179)
Exchange differences on translation of foreign operations	**213**	190
	271	198
Amounts reclassified and reported in the income statement		
Gain on cash flow hedges	**(199)**	(153)
Tax on cash flow hedges	**39**	31
Amounts reclassified and reported in non-financial assets (basis adjustment)		
Gain on cash flow hedges	**(91)**	(2)
Tax on cash flow hedges	**19**	-
	(232)	(124)
Other comprehensive income for the period (net of tax)	**39**	74
Total comprehensive income for the period	**360**	434
Total comprehensive income for the period attributable to:		
Equity shareholders of the parent company	**360**	433
Non-controlling interests	**-**	1
	360	434

Condensed Consolidated Balance Sheet as at 31 December 2016

	31 December 2016 £m	31 December 2015 £m	30 June 2016 £m
Non-current assets			
Goodwill	**4,811**	4,280	4,713
Intangible assets	**4,519**	4,046	4,446
Property, plant and equipment	**2,115**	1,715	1,957
Investments in joint ventures and associates	**121**	127	123
Available-for-sale investments	**88**	27	71
Deferred tax assets	**275**	181	245
Trade and other receivables	**99**	90	95
Programme distribution rights	**63**	36	36
Derivative financial assets	**1,118**	564	1,022
	13,209	11,066	12,708
Current assets			
Inventories	**2,398**	1,792	990
Trade and other receivables	**1,433**	1,379	1,349
Current tax assets	**15**	-	14
Short-term deposits	**150**	-	-
Cash and cash equivalents	**1,151**	1,939	2,137
Derivative financial assets	**137**	108	212
	5,284	5,218	4,702
Total assets	**18,493**	16,284	17,410
Current liabilities			
Borrowings	**416**	24	31
Trade and other payables	**4,492**	4,480	3,902
Current tax liabilities	**190**	154	162
Provisions	**145**	88	181
Derivative financial liabilities	**16**	8	50
	5,259	4,754	4,326
Non-current liabilities			
Borrowings	**8,860**	8,052	8,901
Trade and other payables	**117**	99	81
Provisions	**91**	81	94
Derivative financial liabilities	**343**	46	259
Deferred tax liabilities	**311**	258	308
	9,722	8,536	9,643
Total liabilities	**14,981**	13,290	13,969
Share capital	**860**	860	860
Share premium	**2,704**	2,704	2,704
Reserves	**(53)**	(571)	(117)
Total equity attributable to equity shareholders of the parent company	**3,511**	2,993	3,447
Total equity (deficit) attributable to non-controlling interests	**1**	1	(6)
Total liabilities and equity	**18,493**	16,284	17,410

Condensed Consolidated Cash Flow Statement for the half year ended 31 December 2016

	Notes	**2016/17 Half year £m**	2015/16 Half year £m
Cash flows from operating activities			
Cash generated from operations	5	**364**	897
Interest received		**4**	6
Taxation paid		**(54)**	(94)
Net cash from operating activities		**314**	809
Cash flows from investing activities			
Dividends received from joint ventures and associates		**10**	11
Funding to joint ventures and associates		**(8)**	(3)
Proceeds on disposal of investment in joint venture		**4**	6
Purchase of property, plant and equipment		**(347)**	(218)
Proceeds on disposal of property, plant and equipment		**2**	-
Purchase of intangible assets		**(275)**	(177)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		**-**	(21)
Purchase of available-for-sale investments		**(17)**	(6)
(Increase) decrease in short-term deposits		**(150)**	1,100
Net cash (used in) from investing activities		**(781)**	692
Cash flows from financing activities			
Net proceeds from borrowings		**-**	354
Repayment of borrowings		**(7)**	(432)
Repayment of obligations under finance leases		**(8)**	(7)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		**1**	1
Purchase of own shares for ESOP		**-**	(200)
Interest paid		**(153)**	(146)
Purchase of non-controlling interests		**-**	(170)
Capital contribution from non-controlling interests		**3**	-
Dividends paid to shareholders of the parent		**(358)**	(350)
Net cash used in financing activities		**(522)**	(950)
Effect of foreign exchange rate movements		**3**	10
Net (decrease) increase in cash and cash equivalents		**(986)**	561
Cash and cash equivalents at the beginning of the period		**2,137**	1,378
Cash and cash equivalents at the end of the period		**1,151**	1,939

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2016

	Attributable to equity shareholders of the parent company									
	Share capital £m	**Share premium £m**	**ESOP reserve £m**	**Hedging reserve £m**	**Available-for-sale reserve £m**	**Other reserves £m**	**Retained (deficit) earnings £m**	**Total share-holders' equity £m**	**Non-controlling interests £m**	**Total equity £m**
At 30 June 2015	**860**	**2,704**	**(125)**	**62**	**(1)**	**120**	**(455)**	**3,165**	**59**	**3,224**
Profit for the period	-	-	-	-	-	-	359	359	1	360
Net investment hedges	-	-	-	-	-	(179)	-	(179)	-	(179)
Exchange differences on translation of foreign operations	-	-	-	-	-	190	-	190	-	190
Revaluation of available-for-sale investments	-	-	-	-	1	-	-	1	-	1
Recognition and transfer of cash flow hedges	-	-	-	77	-	-	-	77	-	77
Tax on items taken directly to equity	-	-	-	(15)	-	-	-	(15)	-	(15)
Total comprehensive income for the period	**-**	**-**	**-**	**62**	**1**	**11**	**359**	**433**	**1**	**434**
Share-based payment	-	-	(20)	-	-	-	(131)	(151)	-	(151)
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	1	1
Tax on items taken directly to equity	-	-	-	-	-	-	6	6	-	6
Dividends	-	-	-	-	-	-	(350)	(350)	-	(350)
Purchase of non-controlling interests	-	-	-	-	-	-	(110)	(110)	(60)	(170)
At 31 December 2015	**860**	**2,704**	**(145)**	**124**	**-**	**131**	**(681)**	**2,993**	**1**	**2,994**
Profit (loss) for the period	-	-	-	-	-	-	307	307	(4)	303
Net investment hedges	-	-	-	-	-	(718)	-	(718)	-	(718)
Exchange differences on translation of foreign operations	-	-	-	-	-	892	-	892	-	892
Recognition and transfer of cash flow hedges	-	-	-	164	-	-	-	164	-	164
Tax on items taken directly to equity	-	-	-	(31)	-	-	-	(31)	-	(31)
Actuarial movements on employee benefit obligations	-	-	-	-	-	(3)	-	(3)	-	(3)
Total comprehensive income for the period	**-**	**-**	**-**	**133**	**-**	**171**	**307**	**611**	**(4)**	**607**
Share-based payment	-	-	20	-	-	-	43	63	-	63
Tax on items taken directly to equity	-	-	-	-	-	-	(6)	(6)	-	(6)
Dividends	-	-	-	-	-	-	(214)	(214)	(3)	(217)
At 30 June 2016	**860**	**2,704**	**(125)**	**257**	**-**	**302**	**(551)**	**3,447**	**(6)**	**3,441**
Profit for the period	-	-	-	-	-	-	321	321	-	321
Net investment hedges	-	-	-	-	-	(177)	-	(177)	-	(177)
Exchange differences on translation of foreign operations	-	-	-	-	-	213	-	213	-	213
Recognition and transfer of cash flow hedges	-	-	-	8	-	-	-	8	-	8
Tax on items taken directly to equity	-	-	-	(5)	-	-	-	(5)	-	(5)
Total comprehensive income for the period	**-**	**-**	**-**	**3**	**-**	**36**	**321**	**360**	**-**	**360**
Share-based payment	-	-	18	-	-	-	38	56	-	56
Non-controlling interests arising during the period	-	-	-	-	-	-	-	-	7	7
Tax on items taken directly to equity	-	-	-	-	-	-	6	6	-	6
Dividends	-	-	-	-	-	-	(358)	(358)	-	(358)
At 31 December 2016	**860**	**2,704**	**(107)**	**260**	**-**	**338**	**(544)**	**3,511**	**1**	**3,512**

Notes to the Condensed Consolidated Interim Financial Statements

1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 December 2016 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as adopted for use in the European Union and issued by the International Accounting Standards Board. The condensed consolidated interim financial statements have been prepared on a going concern basis and have been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 30 June 2016, except for new accounting pronouncements which have become effective this period, none of which had a material impact on the Group's results or financial position.

The condensed consolidated interim financial statements are presented on a condensed basis as permitted by IAS 34 and therefore do not include all disclosures that would otherwise be required in a full set of financial statements and should be read in conjunction with the 2016 Annual Report. The condensed consolidated interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and are unaudited for all periods presented. The financial information for the full year ended 30 June 2016 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain any statement under section 498(2) and (3) of the Companies Act 2006.

The condensed consolidated interim financial statements are based on the 26 weeks ended 1 January 2017 (fiscal year 2016: 26 weeks ended 27 December 2015). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June and its condensed consolidated interim financial statements as at 31 December.

Going Concern

The Group has updated the analysis which supported its assessment of going concern set out on page 31 of the 2016 Annual Report, and continues to believe that its existing external financing, together with internally generated cash inflows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual obligations and commercial commitments, its approved capital expenditure requirements and any dividends proposed for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

2 Operating Segments

The Group has three reportable segments that are defined by geographic area to reflect how the Group's operations are monitored and managed. The reportable segments presented reflect the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's chief operating decision maker.

Reportable segment	Description
UK & Ireland	The activities and operations of the pay TV, home communications and adjacent businesses in the UK and Ireland
Italy	The activities and operations of the pay TV and adjacent businesses in Italy
Germany & Austria	The activities and operations of the pay TV and adjacent businesses in Germany and Austria

Segmental income statement for the half year ended 31 December 2016

	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items & Eliminations £m	Statutory Group Total £m
Subscription	3,548	1,025	814	-	5,387
Transactional	80	17	10	-	107
Programme and Channel Sales	338	58	9	-	405
Advertising	249	109	38	-	396
Other	52	27	36	-	115
Revenue	**4,267**	**1,236**	**907**	**-**	**6,410**
Programming	(1,784)	(743)	(509)	(11)	(3,047)
Direct network costs	(474)	-	-	-	(474)
Sales, general and administration	(1,389)	(423)	(409)	(207)	(2,428)
Operating expense	**(3,647)**	**(1,166)**	**(918)**	**(218)**	**(5,949)**
EBITDA	830	142	37	(75)	934
Depreciation and amortisation	(210)	(72)	(48)	(143)	(473)
Operating profit (loss)	**620**	**70**	**(11)**	**(218)**	**461**
Share of results of joint ventures and associates					8
Investment income					8
Finance costs					(100)
Profit before tax					**377**

Segmental income statement for the half year ended 31 December 2015

	UK & Ireland £m	Italy £m	Germany & Austria £m	Adjusting Items & Eliminations £m	Statutory Group Total £m
Subscription	3,413	838	629	-	4,880
Transactional	68	15	9	-	92
Programme and Channel Sales	294	6	9	-	309
Advertising	255	80	24	-	359
Other	42	14	22	-	78
Revenue	**4,072**	**953**	**693**	**-**	**5,718**
Programming	(1,458)	(548)	(409)	(21)	(2,436)
Direct network costs	(448)	-	-	-	(448)
Sales, general and administration	(1,410)	(380)	(318)	(202)	(2,310)
Operating expense	**(3,316)**	**(928)**	**(727)**	**(223)**	**(5,194)**
EBITDA	950	92	7	(39)	1,010
Depreciation and amortisation	(194)	(67)	(41)	(184)	(486)
Operating profit (loss)	**756**	**25**	**(34)**	**(223)**	**524**
Share of results of joint ventures and associates					3
Investment income					5
Finance costs					(118)
Profit before tax					**414**

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted results is shown in note 3 which also includes a description of the adjusting items. Transactions between segments are based on estimated market prices.

3 Earnings per share

The weighted average number of ordinary shares for the period was:

	2016/17 Half year Millions of shares	2015/16 Half year Millions of shares
Ordinary shares	**1,719**	1,719
ESOP trust ordinary shares	**(10)**	(13)
Basic shares	**1,709**	1,706
Dilutive ordinary shares from share options	**12**	12
Diluted shares	**1,721**	1,718

Basic and diluted earnings per share are calculated by dividing profit for the period attributable to equity shareholders of the parent company by the weighted average number of shares for the period.

In order to provide a measure of underlying performance, management has chosen to present an adjusted profit for the period which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

	2016/17 Half year £m	2015/16 Half year £m
Reconciliation from profit for the period attributable to equity shareholders of the parent company to adjusted profit for the period attributable to equity shareholders of the parent company		
Profit for the period attributable to equity shareholders of the parent company	**321**	359
Costs relating to corporate restructuring and efficiency programmes	**51**	25
Costs relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	**28**	24
Costs in relation to 21st Century Fox offer	**9**	-
Advisory and transaction fees incurred on the purchase of Sky Italia and Sky Deutschland	**-**	4
Amortisation of acquired intangible assets	**137**	175
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	**(24)**	7
Tax effect of above items and tax adjusting items	**(39)**	(84)
Adjusted profit for the period attributable to equity shareholders of the parent company	**483**	510

4 Dividends

	2016/17 Half year £m	2015/16 Half year £m	2015/16 Full year £m
Dividends declared and paid during the period			
2015 Final dividend paid: 20.50p per ordinary share	**-**	350	350
2016 Interim dividend paid: 12.55p per ordinary share	**-**	-	214
2016 Final dividend paid: 20.95p per ordinary share	**358**	-	-
	358	350	564

5 Notes to the Condensed Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations

	2016/17 Half year £m	2015/16 Half year £m
Profit before taxation	**377**	414
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	**188**	180
Amortisation, impairment and losses (profits) on disposal of intangible assets	**285**	306
Share-based payment expense	**61**	47
Net finance costs	**92**	113
Share of results of joint ventures and associates	**(8)**	(3)
	995	1,057
Increase in trade and other receivables	**(110)**	(234)
Increase in inventories	**(1,449)**	(923)
Increase in trade and other payables	**709**	1,018
Decrease in provisions	**(41)**	(13)
Increase (decrease) in derivative financial instruments	**260**	(8)
Cash generated from operations	**364**	897

Under the terms of the new Premier League deal, the second annual payment falls due 30 days earlier at the start of December (prior deal: January) which impacts payables by £692 million. This impact reverses out by full year as no payment falls due in the second half.

6 Other matters

a) Guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £34 million (2016: half year: £7 million; full year: £44 million).

The Company has provided back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

b) Ofcom determination

During the year ended 30 June 2013, the Group received a credit note of £32 million from BT following an Ofcom determination which required BT to repay monies to Sky for overcharged Ethernet services (backhaul) between 2006/07 and 2009/10. Ofcom's findings on the amount of the overcharge were mostly upheld by the Competition Appeal Tribunal ("CAT") in August 2014. BT and Talk Talk have been granted permission to appeal to the Court of Appeal and the hearing will take place in March 2017. The CAT also directed Ofcom to determine the amount of interest payable by BT in respect of the overcharge. Ofcom has completed its assessment of the appropriate level of interest to award each party and shared this with the parties in August 2015 but Ofcom has not issued a final decision (ordering payment of interest) pending the outcome of BT's appeal.

7 Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

The Group conducts business transactions with companies that are part of the Twenty-First Century Fox, Inc. ("21st Century Fox") group, a major shareholder in the Company.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 31 December are as follows:

	2016/17 Half year £m	2015/16 Half year £m	2015/16 Full year £m
Supply of goods or services by the Group	**29**	22	45
Purchases of goods or services by the Group	**(198)**	(174)	(398)
Amounts owed to the Group	**26**	21	20
Amounts owed by the Group	**(246)**	(213)	(182)

At 31 December 2016 the Group had expenditure commitments of £602 million (2016: half year: £499 million; full year: £407 million) with 21st Century Fox companies, all of which related to minimum television programming rights commitments and which were at arm's length.

7 Transactions with related parties and major shareholders (continued)

a) Entities with joint control or significant influence (continued)

Goods and services supplied to 21st Century Fox

During the current period, the Group supplied programming, airtime, transmission and marketing services to 21st Century Fox.

Purchases of goods and services and certain other relationships with 21st Century Fox

During the current period, the Group purchased programming from 21st Century Fox companies.

There is an agreement between 21st Century Fox and the Group, pursuant to which it was agreed that, for so long as 21st Century Fox directly or indirectly holds an interest of 30% or more in the Group, 21st Century Fox will not engage in the business of satellite broadcasting in the UK or Ireland.

The sale and purchase agreements for the acquisitions of Sky Italia Srl and Sky Deutschland AG contained certain commitments from 21st Century Fox not to retail certain services to consumers in certain territories until 1 January 2017. The sale and purchase agreement for the National Geographic channel contained undertakings from the Company not to compete with the business of the National Geographic Channel International until 1 January 2017.

b) Joint ventures and associates

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

	2016/17 Half year £m	2015/16 Half year £m	2015/16 Full year £m
Supply of services by the Group	**24**	39	62
Purchases of goods or services by the Group	**(26)**	(25)	(52)
Amounts owed by joint ventures and associates to the Group	**124**	88	90
Amounts owed to joint ventures and associates by the Group	**(22)**	(9)	(14)

Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Purchases principally represent fees payable for channel carriage.

Amounts owed by joint ventures and associates include £92 million (2016: half year: £70 million; full year: £77 million) relating to loan funding. The loans bear interest at rates between 1.50% and 8.20% (2016: half year: 8.20%; full year: 8.20%) The maximum amount of loan funding outstanding in total from joint ventures and associates during the period was £92 million (2016: half year: £70 million; full year: £77 million).

The Group took out a number of forward foreign exchange contracts with counterparty banks during the period on behalf of the joint venture AETN UK. On the same dates as these forward foreign exchange contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward foreign exchange contracts.

Consequently, the Group was not exposed to any of the net gains or losses on these forward foreign exchange contracts. The face value of forward foreign exchange contracts with AETN UK that had not matured as at 31 December 2016 was £25 million (2016: half year: £24 million; full year: £34 million).

During the current period, US$19 million (2016: half year: US$19 million; full year: US$27 million) was received from AETN UK upon maturity of forward foreign exchange contracts and US$27 million (2016: half year: US$19 million; full year: US$19 million) was paid to AETN UK upon maturity of forward foreign exchange contracts.

During the current period, £18 million (2016: half year: £12 million; full year: £12 million) was received from AETN UK upon maturity of forward foreign exchange contracts and £17 million (2016: half year: £14 million; full year: £26 million) was paid to AETN UK upon maturity of forward foreign exchange contracts.

During the current period, €4 million (2016: half year: €1 million; full year: €11 million) was received from AETN UK upon maturity of forward foreign exchange contracts and nil (2016: half year and full year: nil) was paid to AETN UK upon maturity of forward foreign exchange contracts.

At 31 December 2016 the Group had minimum expenditure commitments of £5 million (2016: half year: £3 million; full year: £3 million) with its joint ventures and associates.

c) Other transactions with related parties

The Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors. These do not meet the definition of related party transactions.

7 Transactions with related parties and major shareholders (continued)

d) Key management

The Group has a related party relationship with the Directors of the Company. At 31 December 2016, there were 11 (2016: half year: 12; full year: 11) members of key management, all of whom were Directors of the Company. Key management compensation is provided below:

	2016/17 Half year £m	2015/16 Half year £m	2015/16 Full year £m
Short-term employee benefits	**4**	4	6
Share-based payments	**4**	4	9
	8	8	15

Post-employment benefits were less than £1 million in each period.

8 Financial instruments

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values:

	Level 1		**Level 2**		**Level 3**	
	31 December 2016 £m	30 June 2016 £m	**31 December 2016 £m**	30 June 2016 £m	**31 December 2016 £m**	30 June 2016 £m
Financial assets						
Available-for-sale financial assets						
Other investments	**-**	-	**-**	-	**88**	71
Financial assets at fair value through profit or loss						
Interest rate swaps	**-**	-	**51**	79	**-**	-
Cross-currency swaps	**-**	-	**939**	744	**-**	-
Forward foreign exchange contracts	**-**	-	**265**	411	**-**	-
Total	**-**	-	**1,255**	1,234	**88**	71
Financial liabilities						
Financial liabilities at fair value through profit or loss						
Interest rate swaps	**-**	-	**(5)**	(6)	**-**	-
Cross-currency swaps	**-**	-	**(323)**	(240)	**-**	-
Forward foreign exchange contracts	**-**	-	**(19)**	(55)	**-**	-
Embedded Derivative	**-**	-	**(12)**	(8)	**-**	-
Total	**-**	-	**(359)**	(309)	**-**	-

Level 1 fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities, including shares in listed entities.

Level 2 fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data. Certain of the Group's unlisted available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

INDEPENDENT REVIEW REPORT TO SKY PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2016 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
25 January 2017

Appendix 2 – Non-GAAP measures

Reconciliation of cash generated from operations to adjusted free cash flow
for the half year ended 31 December 2016

	2016/17 Half year £m	2015/16 Half year £m
Cash generated from operations	**364**	897
Adjusting items:		
Cash paid relating to corporate restructuring and efficiency programmes	**55**	25
Cash paid relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group	**18**	8
Cash paid in relation to 21st Century Fox offer	**1**	-
Adjusted cash generated from operations	**438**	930
Interest received	**4**	6
Taxation paid	**(54)**	(94)
Dividends received from joint ventures and associates	**10**	11
Funding to joint ventures and associates	**(8)**	(3)
Purchase of property, plant and equipment	**(347)**	(218)
Purchase of intangible assets	**(275)**	(177)
Interest paid	**(153)**	(146)
Tax effect of adjusting items	**(32)**	(26)
Adjusted free cash flow	**(417)**	283

Analysis of movements in net debt

	As at 1 July 2016 £m	Cash movements £m	Non-cash movements £m	**As at 31 December 2016 £m**
Current borrowings	31	(15)	400	416
Non-current borrowings	8,901	-	(41)	8,860
Borrowings-related derivative financial instruments	(577)	-	(86)	(663)
Gross debt	**8,355**	**(15)**	**273**	**8,613**
Cash and cash equivalents	(2,137)	986	-	(1,151)
Short-term deposits	-	(150)	-	(150)
Net debt	**6,218**	**821**	**273**	**7,312**

Consolidated income statement - reconciliation of statutory and adjusted numbers

	Notes	Statutory £m	2016/17 Adjusting Items £m	Adjusted £m
Revenue				
Subscription		**5,387**	**-**	**5,387**
Transactional		**107**	**-**	**107**
Programme and Channel Sales		**405**	**-**	**405**
Advertising		**396**	**-**	**396**
Other		**115**	**-**	**115**
		6,410	**-**	**6,410**
Operating expense				
Programming	A	**(3,047)**	**11**	**(3,036)**
Direct network costs		**(474)**	**-**	**(474)**
Sales, general and administration	B	**(2,428)**	**207**	**(2,221)**
		(5,949)	**218**	**(5,731)**
EBITDA		**934**	**75**	**1,009**
Operating profit		**461**	**218**	**679**
Share of results of joint ventures and associates	C	**8**	**7**	**15**
Investment income		**8**	**-**	**8**
Finance costs	D	**(100)**	**(24)**	**(124)**
Profit before tax		**377**	**201**	**578**
Taxation	E	**(56)**	**(39)**	**(95)**
Profit for the period		**321**	**162**	**483**
Profit for the period attributable to non-controlling interests		**-**	**-**	**-**
Profit for the period attributable to equity shareholders of the parent company		**321**	**162**	**483**
Earnings per share (basic)		**18.8p**	**9.5p**	**28.3p**

Notes: explanation of adjusting items for the period ended 31 December 2016

A. Costs of £6 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £5 million relating to corporate restructuring and efficiency programmes.
B. Costs of £46 million relating to corporate restructuring and efficiency programmes (including amortisation of £13 million in relation to associated intangibles), costs of £22 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £9 million in relation to 21st Century Fox offer and amortisation of acquired intangible assets of £130 million.
C. Amortisation of acquired intangible assets of £7 million.
D. Finance income of £24 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
E. Tax effect of above adjusting items and tax adjusting items.

Consolidated income statement - reconciliation of statutory and adjusted numbers

		2015/16		
	Notes	Statutory £m	Adjusting Items £m	Adjusted £m
Continuing Operations				
Revenue				
Subscription		**4,880**	**-**	**4,880**
Transactional		**92**	**-**	**92**
Programming and Channel Sales		**309**	**-**	**309**
Advertising		**359**	**-**	**359**
Other		**78**	**-**	**78**
		5,718	**-**	**5,718**
Operating expense				
Programming	A	**(2,436)**	**21**	**(2,415)**
Direct network costs		**(448)**	**-**	**(448)**
Sales, general and administration	A	**(2,310)**	**202**	**(2,108)**
		(5,194)	**223**	**(4,971)**
EBITDA		**1,010**	**39**	**1,049**
Operating profit		**524**	**223**	**747**
Share of results of joint ventures and associates	B	**3**	**5**	**8**
Investment income		**5**	**-**	**5**
Finance costs	C	**(118)**	**7**	**(111)**
Profit before tax		**414**	**235**	**649**
Taxation	D	**(54)**	**(84)**	**(138)**
Profit for the period from continuing operations		**360**	**151**	**511**
Profit for the period attributable to non-controlling interests		**(1)**	**-**	**(1)**
Profit for the period from continuing operations attributable to equity shareholders of the parent company		**359**	**151**	**510**
Earnings per share from continuing operations (basic)		**21.0p**	**8.9p**	**29.9p**

Notes: explanation of adjusting items for the period ended 31 December 2015

A. Costs of £25 million relating to corporate restructuring and efficiency programmes (including amortisation of £7 million in relation to associated intangibles), costs of £24 million relating to the integration of Sky Italia and Sky Deutschland in the enlarged Group (including amortisation of £7 million in relation to associated intangibles), advisory and transaction fees of £4 million incurred on the purchase of Sky Italia and Sky Deutschland, and amortisation of acquired intangible assets of £170 million.
B. Amortisation of acquired intangible assets of £5 million.
C. Finance costs of £7 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
D. Tax effect of above adjusting items and tax adjusting items.

Appendix 3 - Principal risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's long-term performance, and the factors which mitigate these risks, are set out in more detail on pages 28-31 of the 2016 Annual Report. Other than where indicated below, the Board does not consider that the following principal risks and uncertainties have changed. Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

- Market and competition: The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition. A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position. Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that its customers want on commercially attractive terms. Economic conditions have been challenging in recent years across the territories in which the Group operates and the outcome of the UK referendum has caused further economic uncertainty. A significant economic decline in any of those territories could impact the Group's ability to continue to attract and retain customers in that territory.
- Regulatory breach and change: The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences. The Group is subject to regulation primarily under Austrian, German, Irish, Italian, UK and European Union ("EU") legislation. The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries, from regulatory authorities. The telecommunications and media regulatory framework applying to the Group in the UK and the EU may be subject to greater uncertainty in the event that the UK leaves the EU. Potential changes to the regulatory framework could include divergence in the long term between the UK and EU regulation of telecommunications and media, and changes to certain mutual recognition arrangements for media and broadcasting. Sky does not currently foresee any regulatory changes as a result of a UK exit that would have a material impact on its business. Below is an update of the ongoing investigations and reviews of regulatory and competition matters involving the Group listed at pages 32-33 of the 2016 Annual Report to the extent that there have been developments since the 2016 Annual Report.
    - WMO obligations: On 19 December 2014, Ofcom began a review to determine whether wholesale must-offer obligations which Ofcom had imposed on the Group in March 2010 (the 'WMO Obligations') for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the 'Affected Channels') remained appropriate. The WMO Obligations required Sky UK, amongst other things, to offer the Affected Channels on a wholesale basis to third parties which satisfied various minimum qualifying criteria. On 19 November 2015, Ofcom announced its decision to remove the WMO Obligations. In its statement concluding its review of the WMO Obligations, Ofcom stated that it does not consider it appropriate to impose regulation in relation to the supply of channels containing key sports content at this time. In Ofcom's view, whilst there may be concerns in principle given Sky's strong position in the market, in practice the evidence shows that Sky is supplying its sports channels widely and Ofcom has not seen evidence to show that the terms of this supply amount to practices prejudicial to fair and effective competition which warrant the imposition of regulation. Ofcom therefore decided that it was appropriate to remove the WMO condition from Sky's broadcast licences, and proceeded to do so on 27 November 2015. Ofcom has stated that it will continue to monitor Sky's practices to determine whether regulation might be appropriate in the future. On 19 January 2016, BT filed an appeal against Ofcom's decision to remove the WMO condition with the CAT. On 25 February 2016, Sky was granted permission to intervene in support of Ofcom's defence of its decision. On 21 December 2016, the CAT dismissed BT's appeal against Ofcom's decision to remove the WMO obligation. On 11 January 2017, BT applied to the CAT for permission to appeal against the CAT's judgment to the Court of Appeal. The Group is unable to determine whether BT will be granted permission to appeal and, if they are, whether, and to what extent, the appeal will be successful or its financial impact. However, should the outcome of these processes be adverse to the Group, this may have a significant effect on the financial position or profitability of the Group
    - Ofcom Competition Act investigation into Virgin Media complaint concerning "collective" selling of live UK television rights by the Premier League: In September 2014, Ofcom received a complaint from Virgin Media ('VM') alleging that the arrangements for the 'collective' selling of live UK television rights by the Premier League ('PL') for matches played by its member clubs are in breach of competition law. On 18 November 2014, Ofcom opened an investigation under section 25 of the Competition Act 1998 into how the PL sells live UK audio-visual media rights for PL football matches. Ofcom decided to close the investigation on 10 August 2016 for reasons of administrative priority.
    - Ofcom investigation into Sky's compliance with rules about cancellation and termination arrangements: On 6 August 2015, Ofcom opened an investigation on whether there are reasonable grounds for believing that Sky has failed to comply with its obligations under the Ofcom General Conditions of Entitlement which require communication providers to ensure that their conditions or procedures for contract termination do not act as a disincentive for end-users changing their communication providers. On 19 September 2016, Ofcom set out its provisional finding that there had been an infringement of the General Conditions of Entitlement. Sky responded in writing in late November 2016 and will present its case orally in February 2017. Ofcom's investigation is continuing. The Group is currently unable to determine whether, or to what extent, Ofcom will find that Sky has failed to comply with its obligations and it is not possible for the Group to conclude on the financial impact of the outcome at this stage
    - Competition law investigation into 2014 Serie A auction: On 19 April 2016, the Italian Competition Authority (the 'ICA') made its final decision in relation to the award of Serie A TV Broadcasting Rights for the 2015-18 seasons. According to the ICA, Lega Nazionale Professionisti Serie A, its advisor Infront Italy S.r.l., and TV broadcasters Sky Italia, Reti Televisive Italiane S.p.A. and its subsidiary Mediaset Premium S.p.A. entered into an anticompetitive agreement in breach of Art. 101 of the Treaty on the Functioning of the European Union to change the award of TV broadcasting rights for the 2015-18 seasons Serie A matches. With respect to Sky Italia, the ICA concluded that it had played a marginal and defensive role in the infringement in order to obtain the award of at least one of the two packages that should have been assigned to Sky Italia based on the tendered offers. Moreover, Sky Italia extensively co-operated with the ICA during the proceedings. Accordingly, the ICA imposed a fine equal to €4 million on Sky. On 18 June 2016, Sky Italia filed an appeal seeking the annulment of the decision. On 23 December 2016, the Italian Administrative Court (TAR Lazio), upholding in full Sky's appeal, annulled the ICA decision in its entirety. The ICA now has until 23 March 2017 to appeal the decision before the Consiglio di Stato.
- Customer service: A significant part of the Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regards to service could negatively impact the Group's brand and competitive position.
- Technology and business interruption: The products and services that the Group provides to its customers are reliant on complex technical infrastructure. A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platforms, customer management systems, OTT platforms or the telecommunications networks on which the Group relies could cause a failure of service to our customers and negatively impact our brand.
- Suppliers: The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its business. A significant failure of a supplier or a discontinuation of supply could adversely affect the Group's ability to deliver operationally.

Appendix 3 - Principal risks and uncertainties (continued)

- Financial: The effective management of its financial exposures is central to preserving the Group's profitability. The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange and interest rates, including as a result of the recent UK referendum, which create volatility in the Group's results to the extent that they are not effectively hedged. Any increase in the financial leverage of the Group may limit the Group's financial flexibility. The Group may also be affected adversely by liquidity and counterparty risks.
- Security: The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures. The Group is responsible to third party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third party platforms). A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.
- Projects: The Group invests in, and delivers, significant capital expenditure projects in order continually to drive the business forward. The level of the Group's capital expenditure has increased as a result of the increased size of the Group's business following completion of the acquisitions of Sky Deutschland and Sky Italia. The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.
- Intellectual property protection: The Group in common with other service providers relies on intellectual property and other proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.
- People: People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business. Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.